The Economic Club of New York

113th Year
542nd Meeting

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Introduction

Good afternoon. This is Barbara Van Allen; President of The Economic Club of New York and we will get started in exactly one minute.

Vice Chairman Michael O'Neill: Good afternoon, and welcome to the 542nd meeting of The Economic Club of New York in our 113th year. I'm Mike O'Neill, Vice Chairman of the Economic Club and retired Chairman of Citigroup. The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues. This mission is as important today as ever as we continue to bring people together as a catalyst for conversation and innovation. We proudly stand with all communities seeking inclusion and mutual understanding in this difficult time. I'd like to thank our healthcare workers and our frontline workers for all that they do during these challenging times to keep us healthy and safe.

A special welcome to guests of our members and members of The Economic Clubs of Chicago and Washington, D.C. who are also invited to join the webinar today. In addition, we're delighted to welcome the members of the ECNY Class of 2020 Fellows who are participating.

It's a pleasure for me now to introduce our guests today, Elena Botelho and Bill McNabb. Elena has been a partner at ghSMART since 2007 where she advises the world's leading CEOs, boards, and investors helping to accelerate performance and prevent pitfalls. Elena initiated and co-leads *The CEO Genome Project* featured in a cover article of *Harvard Business Review* and in the *New York Times* and *Wall Street Journal* bestseller, *The CEO Next Door. The CEO Genome Project* is an extensive research and client practice supporting CEOs, boards, and executives on the path to CEO.

Prior to joining ghSMART, Elena was an Associate Partner at McKinsey & Company, where for six years she advised CEOs and senior executives of Fortune 500 companies and major private equity players on business strategy, M&A, and organizational change.

Bill is a former Chairman and CEO of Vanguard, which he joined in 1986. In 2008, he became Chief Executive Officer and in 2010 he added the titles of Chairman of the Board and Chairman of the Board of Trustees. Bill stepped down as CEO at the end of 2017 and as Chairman at the end of 2018. Earlier in his career, Bill led each of Vanguard's client-facing business divisions. He's active in the investment management industry and served as the Chairman of the Investment Company Institute's Board of Governors from 2013 to 2016. Additionally, he's a Director of UnitedHealth Group, IBM, Axiom, and Duff & Phelps, and also Chairman of Ernst & Young's Independent Audit Committee.

Today's format will be a conversation and will end promptly at 2:45. Any questions that were sent to the Club from members in advance were shared and as a reminder this conversation is on the record as we do have media covering the event. So, Elena and Bill, over to you. I know that you have experience working with each other and I'm looking forward to this as I'm sure our guests are.

Conversation with Elena Botelho and Bill McNabb

ELENA BOTELHO: Thank you Mike.

BILL MCNABB: Thank you Mike. And it's a great privilege to be here and speaking to all of you virtually. Welcome to my library and Elena's as well. What Elena and I thought we would do is really just have a conversation between us. And I get the privilege of asking the first question. We sort of flipped a coin for that and I was lucky enough to win. So I'm going to just dive right in and start out with Elena's book, *The CEO Next Door*, which as Mike described, a best seller, and is really based upon just extensive, extensive research on what makes a great CEO. And so, Elena, I thought we could actually start with, you know, the types of behaviors that your research show really make a difference, and then how you actually are seeing that play out in the current environment?

ELENA BOTELHO: Yes, so, Bill, as you know, for a quarter century, companies have come to ghSMART to get our help on selecting who should run the company and helping them accelerate to full potential, right? And as we analyzed over 20,000 C-suite leaders and over 2,000 CEOs over a quarter century, we kept seeing the same problems. We kept seeing highly accomplished boards – and I know nobody in present company has ever experienced that but you might have had friends like that – highly accomplished board full of terrific CEOs in their own right and when the time comes to select who should be at the helm, they pick the wrong person.

So, an interesting factoid for you, between a quarter to 50% of CEO attrition is estimated to be forced. Right? And so that's not a great, that's not a great statistic. On the other hand, you've got CEOs who now land in this proverbial hot seat and get lots of advice about what they really need to focus on, and I'm sure, Bill, you and Mike and others have been on the receiving end of just lots of advice. And what do you really listen to?

And so I come from a family of Russian mathematicians and so when in doubt we go to data. And so what we've done is we've worked with the data miners from leading universities, the University of Chicago and others, to really get underneath this question that you asked which is what does good leadership actually look like? And we looked at results. So we literally analyzed leaders and tried to see other patterns. Is there such a genome of the kind of leader who delivers results?

And the first thing we found that was actually really concerning is that a lot of things that will sway your decision, so when you're sitting in the boardroom and choosing the next CEO, some of things that time and again we see sway even the best boards, and I will say the word charisma, I will say the word pedigree. Those are the things that often sway the board around who should really get the baton.

When we look at the performance, what we found is it actually doesn't matter. To this day, there are lots of conversations we have with boards around introversion-extroversion. The data doesn't bear it out. Those things do not matter to performance, which is what the data told us.

So what does? As Bill alluded to, we uncovered four behaviors that are statistically associated with higher performance at the top. And Bill, we can have an interesting conversation as to how that applies now and whether it really holds, right, in this environment or it doesn't. To make it easy to remember, because at McKinsey I was told anything more than three, people don't remember, so to make it easy to remember since there are four, think of the word dare, D-A-R-E. So dare to think differently about leadership. What does strong leadership at the top look like? And I will briefly mention them and then, you know, Bill, if you think it's worth it, we can go into some of them in more detail.

But, number one factor was decisiveness. So highly decisive CEOs were 12 times more likely to succeed. And indecisiveness, what was really surprising to us back then when we did the research is that actually it turned out that the CEOs who stood out for decisiveness, it wasn't about the precision of their decision making, it was about speed. So it was really the speed of decision making.

The second piece was around adapting. So highly adaptable CEOs were seven times more like to succeed. And I will tell you, as you might guess, a lot of the conversation in the boardrooms today around selecting the next CEOs center on that ability to adapt. What we found in the original research is that around adapting, a surprise was that, again, master adapters weren't necessarily about being the first to see the future but were the first to let go of the past behaviors, past business models that no longer served them and the enterprise for the future.

The third piece – we were kind of annoyed at it actually when we uncovered it – was reliability. Reliability sounds really boring and just, you know, doesn't really rise, doesn't seem to rise to the top as a CEO behavior. And yet, 15 times, so highly reliable CEOs were 15 times more likely to excel. And we're finding it, in this environment as well, reliability is something that's really critical and the expectations for reliability are taken to a new level. And then final piece is engaging for results. So it's how to you actually enlist follower-ship, not for the purposes of being liked, but for the purposes of advancing the enterprise agenda. And so these four behaviors are based on a decade of research into what makes a successful CEO. And then the obvious, you know, interesting question is how does that hold up to the current reality?

BILL MCNABB: Yes, so look, you know, as you know I like the four, I like the four behaviors. I think there's lots of different ways you can describe those characteristics, but the DARE is an easy way to do it. You know from, at least what I'm seeing in boardrooms and I'm sure many of you are experiencing – all four of these behaviors are going to be important but the first two actually that you mentioned, I think are particularly critical when you're in a crisis. I think speed, when you're dealing with an ongoing onslaught of brutal facts – if you will – is really important. And again, as your data suggests, you're not going to get all the decisions right, but actually making decisions quickly on these tactical issues as they keep rolling at you and then moving on is really, really important.

And we see some organizations stepping back and, you know, they let perfect be the enemy of good. And frankly, I think when it comes to decisiveness, you know, I used to say, you know when you have, you know when your business is running well, time could be your friend on strategic decisions. I still think that's true. But when you're in a crisis, you've got to keep moving through the, just the incredible numbers of decisions you make.

ELENA BOTELHO: One thing we're noticing on decisiveness, Bill, now actually is in the original research we saw the CEOs who were really effective at making fast decisions in the kind of "normal" environment, they often had a framework that was really a simple framework for even very complicated businesses that was oriented around value creation, right? So at the end of the day, what really matters for the value creation of the enterprise? In the current environment, because as you said so much new data is thrown at any CEO and frankly, we're all operating among the unknowns. What we're finding actually is the fast decision makers are referring to the value framework at least as much as the, the values framework at least as much as the value framework.

And so the example is UnitedHealthcare Group, right, they stepped up instantly to set up a scholarship fund for George Floyd, to set up volunteer hours to help clean up Minneapolis. And it wasn't because of an ROI analysis, it was because of the value system of the management team so it was kind of adding values to value creation that's been really the source of the fast decision making.

BILL MCNABB: I think that's great. And, as you know, I'm familiar with the United Health situation. And, you know, it's interesting just contrast, you know, what Dave Wichmann and his team did with what a lot of other companies did. Other companies took two weeks to issue, you know, sort of a statement that just said, you know, Black lives matter and what we saw is wrong, and it took two weeks to get there as opposed to literally the first business day after, there's a scholarship. There's not only a really powerful statement, but there's actions to back the statement. And again, you know, time will tell how effective it is and so forth, but I thought it was great.

You know the other one that I think during the crisis, crises in particular, is this adaptability. You almost have to have two streams of consciousness going during a crisis. You have to have this, you know, speed and, you know, what do I need to do to live to fight another day, and you're making quick decisions there. But then you also have to have a whole process going around how do we emerge from this situation competitively better positioned and stronger?

And, you know, at least the way we did it at Vanguard during the GFC was we actually took a couple of our executives and had them focus on the different, you know, different aspects. So there was one member of our team who was one of the best operators amongst us and he ran all the contingency stuff and sort of the day-to-day, you know keep the lights running and the computers humming and so forth. And then we took another individual and said start doing the work for strategically what's going to be different as we emerge from this and how do we want to be positioned. And that adaptability, I think, is really important in terms of determining winners and losers in the marketplace. So, you know, again in the boardrooms where I'm in right now, I'm fortunate to be seeing a lot of that thinking and I'm hopeful.

ELENA BOTELHO: So on adaptability, here is what surprised us, actually is the nature of the challenge has changed completely. Because in the normal times, again, the biggest challenge for adapting, right, people fail to adapt, leaders and organizations fail to adapt not because they didn't know the future, it's because they were holding on to the past because it was so damn profitable. And so ironically actually in a crisis, adaptability really thrives. So human beings are actually just by nature better at adapting in a crisis than they are adapting, again something that's kind of where they feel there's still an option. So I guess, you know, if we're looking for silver linings in the current situation, I think it's really, you know, present and clear danger, and realizing that there isn't an option has really energized their organizations.

And I see the same exact thing, Bill, that you described. There's a real bifurcation actually among the leaders, and you mentioned private equity, you know, often in the middle market it's harder where some leaders are playing defense and they're really allowing the crisis – by necessity – to become a real kind of brick wall or a roadblock to their aspirations and others are using it as a Trojan horse, right? Others are actually re-doubling their efforts around their core values, around their purpose and mission of the business but doing it completely differently, right? Whether it's telemedicine, whether it's, you know, other initiatives that they've had to undertake, but really adapting.

We do a lot of work with leadership teams helping them accelerate on these four behaviors. And sometimes it's actually very simple questions that are very, very telling. So in adapt these days, what we look at is two very simple things. If I was allowed only two things to help a leader assess how well they will adapt, it's that at this level of complexity of an enterprise nobody adapts on their own. And so the simple question is how broad is the range of points of views that you have around you – the conversation you and I had before Mike joined – how often you, as a CEO, find yourself in the room where there's at least one other person who knows way more than you do and ideally has a different angle and different perspective and different context and background.

And then the second piece is how well are you actually able to ask questions and listen? And that's, so I reached out to a really prominent African-American executive this week just to ask her how should I be advising CEOs in the current environment. And she said it's really simple, you need to ask. These guys have gotten to the top because they always knew, they always knew the right answer. And now they don't. So what happens is often you still see folks in the C-suite talking even if they don't know. And so it's leading by asking questions and ideally asking questions to those that have a very different point of view than yours, right?

BILL MCNABB: Yes, totally. So Elena, you know, a number of people in our audience and I can certainly say this personally as well, are sort of on boards. So how can boards help C-suite executives and CEOs in particular navigate all this right now? What are you hearing from the CEOs on that side?

ELENA BOTELHO: So I will share a piece of data that you might find interesting. When a newly appointed CEO comes into office, 90% of the time working with the board, learning how to "manage" the board, how to engage with the board, so 90% of the time that's one of their top development priorities. That's what they feel. They feel they got to this point because they've been a great operator and now if they could only figure out this whole, you know, scary and nebulous board thing.

Now, when we analyzed CEOs ex-post, so the CEOs who have had a successful tenure, 75% of them will say in hindsight actually all the make or break mistakes were all around their team. So coming in, they're most worried about the board. Coming out, in hindsight they reflect that the biggest difference was all around their team.

And so when CEOs complain about the board or when they're really struggling with the board, right, because at the end of the day the best boards seek to be a strategic asset for the company, right. I think there are a couple of things that a good board can do, right? One is actually taking care of being a good board because boards love to talk about supporting the management team and the CEO and often, I think boards can look in the mirror and ask themselves, are they being a high-performance team? Because that's the one thing they control completely, right, or they should. So I think a board that starts by looking in the mirror and frankly doing the same thing they expect their CEOs to do is look in the mirror and ask themselves are we creating success conditions for the CEO to thrive.

The second piece that happens on every board I know – maybe with the exception of one board that you and I are both aware of – but in decades of experience almost every board intentionally or unintentionally sends signals to the CEO that lead the CEO to sub-optimize decisions around the top team. Every CEO coming in, whether it's true or not, will assume that there is some sacred cows on his leadership team that he cannot touch. And sometimes those sacred cows become a real drag on performance. And some boards are very overt about it. And so it sounds very simple but unfortunately like many really important things in life are, let your CEO pick their team. Let your CEO pick their team. It's hard enough as it is. If you handicap them with this overhang of, yes, but the board loves my GC, or the board loves my CFO, at the end of the day you're having them play with one hand tied behind their back in the environment that's already exceptionally difficult.

And then the third piece would deal around succession. I think the boards get tested around succession experience because that's the one time that it's a high risk, high stakes event where the current CEO cannot leave the board, right, to a large degree. So those would be, you know, taken from many hours of listening to CEOs complaining about their boards, those would be three pieces of advice. Take care of yourself first. Second, let them build their team. And then the third, be really thoughtful and proactive around succession.

I'm curious, Bill, by the way, in that vein, so you've been a successful CEO at Vanguard and now you're in some of the world's largest boards. So, if you could give yourself advice now with your vantage point as a board member and no longer a CEO, how would you manage the relationship with the board differently or anything else you would advise yourself as a CEO?

BILL MCNABB: So, you know, boy, there's a whole lot there. Look, you know, there are so many things you would go back and do slightly differently. I think your advice on the team thing is really critical. The only nuance I would have there is where the board can be really valuable – if you have the right board – is actually in raising the bar. You know, it's interesting, in a number of situations I've been involved in, it hasn't been the board telling, you know, handicapping the CEO with legacy. Frankly, it's been more somebody growing into the role and wanting to be loyal to her and his people. And that's where I've found the board can be very helpful.

ELENA BOTELHO: Absolutely.

BILL MCNABB: If I had to go back and do it again, I might listen to my board with a little bit more criticality in terms of when they were making suggestions on the talent which were very subtle when I look back. But they were clearly thinking among themselves that we could, you know, we could raise the bar in a couple of situations. And, you know, the company was performing pretty well so it didn't ever come to like a real confrontational kind of thing. But if I'd been a little bit more attuned, and frankly if I'd asked the question more directly, i.e. all right, you see lots of different companies, you see lots of different C-suites, what's world-class look like in this function? What's world-class look like in that function? I wish I'd really; I really wish I'd had done that.

ELENA BOTELHO: That's great advice.

BILL MCNABB: And, you know, it's interesting, I'm seeing more of this actually in the private equity world in some ways than I see in the public company world where, you know, because of the size of the companies, one or two people could make just a massive difference really quickly. And, you know, we're trying to have those conversations with the leadership teams a little bit more effectively.

ELENA BOTELHO: Well, I know the group would be very disappointed given your stature if I let you off the hook without asking you an investing question.

BILL MCNABB: Uh, oh.

ELENA BOTELHO: So, and I love the Vanguard recent – I think it's new – I don't know if I missed it before but this notion of invest like you own this place. And so if you think of leaders and boards, so CEOs and boards, and the impact they can have on the world, and so if CEOs and the boards invest like they own the place, where would you recommend, they invest their time, attention, and resource?

BILL MCNABB: Yes, so, you know, the idea here was really born from, I will say we stole some pages from our private equity brethren where the investor, the owner actually often is in the boardroom and is very active. We also looked at what I would call the best performing public companies who, I think, have actually been able to cultivate that notion. And, you know, if you act like it's your money at stake – and hopefully it is – but if you act like that, I think it actually does get you to focus a little bit more sharply.

Where, you know, I think boards need to really spend a ton of time, we're going to talk about succession, I'm sure, before we're done because that's one of your areas of expertise, if I look back on my tenure at Vanguard and governance in particular, in the early days CEO succession was essentially all anybody cared about in terms of the board. Like how, did the board get that right or not? And I still think it's obviously a critical function, you know, if you get it wrong, you're going to really struggle. But I actually think boards have to be thinking much more broadly.

And I kind of put it into three categories. I think boards need to be incredibly engaged with the management teams on behalf of the owners on talent, and talent is not just CEO, but it's the whole executive team. And I would say a subset of that is culture as well, which again we can come back to, but I think talent and culture is one category. I think strategy and being an active partner in strategy. It doesn't mean the board should set strategy, but again the best boards I see, they have real domain expertise and they can push the management team really thoughtfully on strategy in terms of are you thinking about things aggressively enough? Are you missing something really important and so forth?

And then I think risk, and increasingly, you know risk in some ways is the other side of the strategy coin. But I think boards have to be very engaged with managements on the risk side as well. And so if you think about, you know, talent and culture, strategy, risk, to me that is a good shorthand for how boards have to be acting today. Obviously, execution is critical. So you've got to have the transparency in to make sure that there's execution along those dimensions. But, you know, again I'm beginning to see in some of the companies that, you know, I've had a chance to sit in the boardrooms with, the companies are using their boards much more effectively when they follow those kinds of activities.

ELENA BOTELHO: And, Bill, just given the world that we live in today again with Covid, with George Floyd really reshaping the dialogue in the public domain and in many boardrooms, is it changing your view on what good board governance looks like?

BILL MCNABB: Yes, you know, I do. I think one of the things, so if you take the talent thing just as an example and, you know, we could go in a lot of different directions, so I'll try to give you two examples actually. So, on talent, I mentioned culture being really important, I think Covid beginning, and then with the Black Lives Matter coming to a real head, you know, with George Floyd, the ability for companies to really think about their employees much more thoughtfully frankly and strategically, I think, has come to the fore. And, you know, what can a board do to be helpful there? And I actually think it's really important. You know when you look at, you know, certain big failures that occurred in companies where the stock price got obliterated because of a reputational hit, a lot of times it was culture.

And I think this has been an interesting, you know, it's a different aspect of culture. Here it's like how do I keep my employees safe. How do I make sure they're dealing with this crisis appropriately? You know work-from-home has great potential but it also carries a lot of burdens. The most thoughtful companies have been really very effective in sort of figuring out the balance there. And again, I think using the board to help in that regard, and I think boards asking the right questions there is really the key. Go ahead...I'll stop.

ELENA BOTELHO: It's interesting you mention culture. So we obviously couldn't, nobody could have anticipated Covid, but in the book, in our research we actually looked at organizations where reliability is a matter of life and death, right? So even in a peaceful time. So we looked at, and I don't know if Madeline Bell is here – Madeline, I hope you are – Bill, you know Madeline really well, so we looked at Madeline's leadership at Children's Hospital. We looked at Navy Seals. We looked at leadership on atomic submarines. So we literally looked at environments where reliability is not just a matter of hitting your quarter, it literally is a matter of protecting lives.

And so we talk about some of the habits of highly reliable organizations and you talked about culture so that prompted. Two really prominent aspects of those cultures that spread across industries and domains is, number one, they're relentless at encouraging identification of mistakes. So one of the stories we tell in the book is Madeline instituted this program called Great Catch at Children's Hospital of Philadelphia because, you know, no secret, so again pre-Covid normal world, infections are huge sources of avoidable negative healthcare outcomes, right? And so, they set up a program where you were encouraged that uncovering a mistake was not something to be afraid of but was something to celebrate and recognize. You look at the Navy Seals, you look at other organizations, it's this obsession with finding mistakes and celebrating the fact that a mistake uncovered is a bigger mistake prevented often, is one.

And then the second piece is while leaders who run these organizations come with very different styles, when it comes to high stakes activities, they find a way to break the neck of hierarchy actually. So whether, again I think many are familiar with ____ on this checklist manifesto – whether it's about the nurse introducing herself by name before a surgery so that she feels more comfortable telling him if he's about to actually pursue the wrong procedure. But in all of those lives at stake situations, breaking through hierarchy and allowing all the voices to be heard and building – at McKinsey we called it the culture of responsibility to dissent, right? And so as you're thinking about the cultures that will thrive not only on the business dimensions, but really in some of these, you know, existential decisions that leaders are making today, these two things stood out for us back then.

BILL MCNABB: Yes, look, it makes a ton of sense. And, you know, the Madeline Bell, CHOP, again you just can't hit, you can't get closer to life and death than what they're dealing with every single moment. And, you know, as an institution, it has performed brilliantly and continues to perform brilliantly through this incredible crisis that we're going through now. You know it's interesting, my predecessor at Vanguard, Jack Brennan, actually we tried to codify this. And he actually had buttons made up that said DAWAW, a very technical term, DAWAW. And DAWAW stood for Don't Ask Who? Ask Why? And the whole point was quit trying to, you know, put your finger on the person who made a mistake, but figure out why the mistake occurred.

Because, as you know, again I think from your own research, 80 to 90% of all mistakes are process-driven, not necessarily human-driven, right? So humans are operating with imperfect processes. And, you know, once you get through that, then you can start to drive for that additional, you know, additional outcomes through better managing the human aspect of it. But getting the process right was really key. And again, it was, the only way you could do that was to identify all the places where there was __.

ELENA BOTELHO: So, Bill, you've obviously been one of the most vocal and influential voices in this country and probably globally around stakeholder capitalism and good governance for the 21st century. How is your thinking impacted, you know, given the crisis that we're all living through?

BILL MCNABB: You know, Elena, why do you have to ask these really difficult questions?

ELENA BOTELHO: (Laughter) Well, that's the whole beauty, right, of the back and forth. And then it's okay, we can go to succession after that.

BILL MCNABB: You know, look, I think, so I'm going to give you a couple of perspectives – if you will – on the stakeholder capitalism, shareholder capitalism argument.

ELENA BOTELHO: And maybe even share how you even see it because I think it's one of those overused terms these days. But, you know, there are probably many ways to define it. So what does it mean to you?

BILL MCNABB: Yes, so point one, I don't see it as an either/or. And I think in a lot of situations, a lot of what you read is it's, you know, shareholder primacy has driven lack of concern about other stakeholders. And that's true, I think, at a level, especially if you define the time frames appropriately. I think in the short run that definitely does happen. There's no, I mean the data would say that.

To me, so much of this argument around stakeholder versus shareholder is actually what's the appropriate time frame? And, you know, and again I don't want to just be talking from the Vanguard book here because I think this is actually for great active management as well as index management. Your time horizon should be long. And, you know, for us as an index for example, we're a permanent shareholder. So I'm not really as interested in what happens quarter to quarter or even year to year. I'm much more interested in what happens over a long period of time. So, you know, define that however you want. But let's just use ten years as an arbitrary reasonable long period of time.

So in order to create long-term shareholder value, I think you have to pay attention to these other stakeholders. You can't be, you can't create superior value if you have a horrible employee base and unengaged employees. You can't create extraordinary value if you're treating your customers poorly. And so, to me, you know when people talk about the other stakeholders, it should be much less about either/or and it should be much more about "and." And, you know, it's a means in a sense to integrate everything. And, you know, sometimes when I give this, I'll get the question back, you know, it's great philosophically but does it, do you really do...

ELENA BOTELHO: Well, I'll tell you actually a conversation I had just yesterday with a C-suite executive where we had this debate about the fact that the company really prides itself on its sense of purpose but at the end of the day he said, look, Elena, I have a choke collar on my throat around EPS and earnings. And if I go to the board and I tell them, hey, the bad news is we missed on that but the great news is we did the right things for the society, I don't even get to play. And so until there are metrics and measures that are as concrete around societal impact, around stakeholder capitalism, you know, that choke hold of EPS and the quarterly earnings is there. So how do you square that circle?

BILL MCNABB: Well, you know, again I would respectfully tell that CEO to push back, just to be blunt. Because, you know, again so much of this is the tradition of the sell side and, you know, buy and hold and sell recommendations and so forth. And again what I'm really interested in is what do the long-term owners think?

ELENA BOTELHO: But, Bill, hopefully the IBM and the United Healthcare Group CEOs aren't listening, right? Or they'll come to renegotiate their targets with the board.

BILL MCNABB: Elena, just again, you know, Vanguard was not a public company but we tried to operate as if we were. We did Sarbanes-Oxley. We did, you know, we did things, we tried to behave like a public company. We had four metrics that mattered, that we constantly – we get hundreds of metrics – but there were four things that we told the board would define success. Two of them you would think are pretty traditional.

So, one of them was around our investment performance versus the competition, which in essence is like a share price. You know, for us that was as close to sort of like share price. The other financial metric was around our cost basis, which in a sense was a way of looking at our profitability. So we had those two.

The other two metrics were around employee engagement and our consumers net promoter score. And again we can all argue about how relevant; you know how those measures are taken, can you believe the numbers and so forth. And I think there's more to be done on that front. But when we laid things out for our board, we had those four and they were equally weighted and they were focused on ten-year results, not on quarter to quarter. And so what we said to the board was this is how we want to be judged and our board went along with it.

And again, we can talk about causation versus correlation and I don't know if some of our success was due to having those kinds of metrics or whether it just happened to work out that way. But in my heart, I believe it really mattered because it sent the right message to the board and also sent the right message to our investors and it also sent the right message to our employees, maybe the most important constituent in that whole equation.

So, you know, again I don't think it has to be an either/or. I think companies need to think about what, you know, in a sense really matters to them in terms of the way they're working with their employees, their communities, their consumers. And, you know, you want to see over time a linkage between doing really well there and shareholder return. Because, you know, at the end of the day I always like to remind people that it's not Vanguard's money that we're talking about, it's investors. We represent 25 million families. It's not our money. And people tend to forget that. Fifty percent of the U.S. market cap is owned by individuals, mostly through funds now as opposed to directly. There's a fiduciary responsibility there to give those folks a reasonable return as well. So, you know, to me, that's why I keep coming back to time frame and those four. So I can get really worked up on this as you can tell.

ELENA BOTELHO: Well, and I know we're out of time to talk about succession, but it's I interesting because your theme around time lines and the importance of the longer term approach is probably, you know, if you ask me kind of what's the biggest change that we've seen around succession, it's that ten years ago folks came to us at the decision point and the boards typically came to us if they were really already in trouble. And today we typically get to help them make a selection, right, to help them make a choice often between options they didn't think were ideal. Today, actually the typical conversation on succession is the sitting CEO calls us usually at two or three years into the role. We actually recently had a record setter who literally the moment he got appointed called us and said I know I need to develop a talent pipeline. And so the conversation around succession has moved from, you know, the last month conversation before a decision point to really a five-year horizon because it takes a long time to develop talent.

VICE CHAIRMAN MICHAEL O'NEILL: I'm going to have to reluctantly interrupt here because we are out of time, but it's been a very, very interesting conversation. And certainly a lot of those topics are things I've considered over the years and I think you've really teased out a lot of the key issues. Many thanks to both of you. Very, very interesting.

Now, time for a bit of a commercial here. We've got some other terrific speakers lined up. On June 29th, we will have Kristalina Georgieva, the Head of the IMF. That should be quite interesting given the environment. Jim Bullard, President and CEO of the Fed of St. Louis, also a pretty important guy to speak to these days. Anna Wintour, Editor in Chief of Vogue and the Artistic Director of Conde Nast on July 28. And the closest of all will be Larry Summers on June 24th, always an interesting speaker and not one that is afraid of being controversial. So I think it's a good lineup and one that hopefully you will join us for. Thanks very much again.